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Hyeong-ki Kwon[1]

Abstract

This paper examines the globalization process of German core export metalworking industries, to show how the globalization of national corporations has different effects on domestic economies. Contrary to the prevalent views on the globalization of production, this paper holds that the outcomes and patterns of globalization vary, due mainly to the politics of the main actors inside and outside corporations. This paper compares Germany's negotiated globalization with U.S. employer unilateralism. In most U.S. corporations, employers decide how to globalize based on the short-term perspective of shareholder value. By contrast, in Germany, main industrial actors—including employers, works councils, and trade unions—collectively negotiate how to globalize. In this conflict-laden process of collective negotiation, German actors have created a political compromise that combines the upgrading of domestic production with globalizing overseas, whereas Americans have failed to do so. Furthermore, this paper emphasizes that divergent patterns of globalization are not predetermined by national institutions. To the contrary, the successful outcomes in German globalization come mainly from actors' proactive readjustments in their traditional model of industrial relations, creating new practices, such as active union involvement in company-level bargaining, and the democratic bottom-up process instead of the traditional top-down process of negotiation.

Keywords

globalization of production, negotiated globalization, Germany, U.S. industrial relations, co-determination, company-level bargaining

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Recently, corporations in the advanced capitalist countries have increasingly organized their production across national borders, as global competition becomes more intense and as technologies change more rapidly. In order to survive in this competitive climate, corporations tend to dissolve the existing vertically integrated in-house production, move parts of production overseas, and recombine various cross-border advantages, such as low-wage labor, high-tech parts, and easy access to markets. This globalization of production engenders not just changes in the international division of labor, but it also dissolves national economic systems. For example, in 2010, German and U.S. automakers produced more cars overseas than at home. Furthermore, as production in Central and Eastern Europe has been further upgraded and parallel production has been introduced, the global competition of production sites has become fiercer and more direct.[1]

Reorganization of production across national borders may improve the competitiveness of corporations, but it can cause many changes to the national economy, including the hollowing-out of domestic manufacturing jobs and the deregulation of industrial relations. Many scholars as well as the general populace in advanced countries expect a "race to the bottom" and convergence toward a U.S.-style unregulated market due to this competition of production sites.[2]

Are the advanced economies really converging toward the bottom or a U.S.-style uncoordinated market? If an advanced country like Germany has maintained high skills and high wages in the process of globalization, how did it accomplish this? By examining the German pattern of globalized production in the metalworking industries, particularly the automobile industry, compared with the U.S. pattern, this paper holds that the globalization of production does not inevitably lead to a hollowing-out of domestic production or convergence toward a U.S.-style free market. To the contrary, the German way of globalization shows an effective alternative that involves continuously upgrading its domestic production through collective coordination. This paper holds that the different outcomes of globalization are not predetermined by the existing institutions, but they have been constituted by different forms of politics among the main industrial actors. Although existing industrial relations have significantly shifted toward decentralization, Germany can continuously upgrade its domestic production through conflict-laden collective negotiations in contrast to the U.S. pattern of unilateral capital decisions. This paper emphasizes that the globalization is not a given and singular trend, but it is constituted by the politics of main actors, which can lead to very different outcomes for domestic economies.

In order to examine the different national patterns of globalization, this paper focuses on the German metalworking industries, particularly the automobile industry. The metalworking industries are the backbone export industries in Germany. Their exports in 2010 reached more than 60 percent of all German exports, or €561.1 billion. Of the metalworking industries, the automobile industry is the most important not only in its share of total metal turnover (37 percent), but also in its impact on other industries.[3] Furthermore the automobile industry provides an excellent test case of convergence in the course of globalization because it is one of the most globalized industries.[4]

To explore how German metalworking industries, particularly the automobile industry, have globalized differently from their U.S. counterparts, this paper relies on interviews with industrial experts and leaders of unions and trade associations, as well as employers of German corporations, and review of extensive empirical data gathered by German research institutes, such as *Wirtschafts- und Sozialwissenschaftliches Institut* (WSI) and *Soziologischesforschung Institut* (SOFI). I also updated and supplemented the data with extensive secondary literature and German periodicals including *Böckler Impuls* and *Wirtschasftswoche*.

This paper first examines the prevalent views on globalization, suggesting a theoretical alternative before exploring the different methods of globalization. This paper then examines how the effects of globalization on domestic economy differ between Germany and the United States.

Prevalent Theories and an Alternative

This section briefly reviews the prevalent paradigms for the globalization of production, including neoliberal and leftist theories of a converging "race-to-the bottom," as well as path-dependent institutionalism. This section suggests a theoretical alternative, which focuses on the politics among reflexive actors.

Although neoliberals and pessimistic leftists differ in their evaluations of the effects of production globalization on domestic economies, they commonly predict a convergence of national economies toward a U.S.-style liberal market. Neoliberals hold that globalization mutually benefits advanced countries and developing countries.[5] For example, neoliberals hold that the offshoring of information technology (IT) jobs to India and the Philippines not only benefits developing countries by creating more jobs, but the practice also brings economic benefits to the U.S. economy because it reduces labor costs and creates more wealth for the United States. A 2003 McKinsey report says:

> Offshoring creates wealth for U.S. companies and consumers and therefore for the United States as a whole: that is why companies choose to follow this course. Offshoring is just one more example of the innovation that keeps U.S. companies at the leading edge of competitiveness across multiple sectors. If it did not benefit U.S. businesses, they would not offshore.[6]

Neoliberals believe that offshoring creates more wealth and creates more jobs at home by wrongly assuming that the interests of the company and the national economy are identical. However, the interests of companies, workers, and the national economy are not the same. There is no guarantee that the wealth U.S. corporations earn overseas will be reinvested at home to upgrade domestic production and create domestic jobs. In particular, as the 2012 special report of *Harvard Business Review* shows, the recent decline of the U.S. economy is mainly due to the destructive offshoring of businesses and faltering investment in domestic research.[7]

On the other hand, most of the leftist scholars, as well as national politicians and trade unionists, also expect convergence toward the bottom and the Americanization of industrial relations, and they fear the negative effects of globalization on their home economy.[8] They believe that globalization is a threat to advanced countries because the globalization of production and the global competition of production sites can lead to a race to the bottom by competitive underbidding on work conditions. Thus, Central and Eastern Europe are often regarded as the "Trojan horses in the Americanization" of Western Europe.[9] Wolfgang Streeck and Christel Lane hold that Germany is disorganizing its coordinated economy and converging toward a U.S.-style neoliberal free market. Based on his conception of "bazaar" economy, Hans-Werner Sinn expects that advanced countries like Germany and France can no longer hold the chains of value-creation manufacturing in industries such as the automobile industry.[10]

However, as discussed below, German production has not been hollowed out. To the contrary, the core export industries, particularly the automobile industry, sustained a high-road model of production and created more jobs at home by upgrading production. Indeed, as Streeck holds, German industrial relations have been significantly disorganized.[11] However, this disorganization is not simply the exhaustion of a coordinated economy; rather, German social actors in the metalworking industries have developed a new type of coordination in the course of globalization. This new coordination method allows Germany to succeed in improving domestic production.

In this sense, readjustments of German industrial relations in the course of globalization contradict the path dependence explained by the institutionalists like Hall and Soskice.[12] German employers have attempted to decentralize industrial relations, rather than simply utilizing existing institutions. Although traditional industrial relations in Germany have been significantly decentralized to company-level bargaining, main actors—including works councils, trade unions, and employers—have built a new model of coordination practices that include company-level agreements for employment and competitiveness (*Betriebsvereinbargung für Arbeit und Wettbewerbsfähigkeit*). This new model has created a significantly different pattern of globalization, especially when compared with the United States.

In order to examine the dynamic constitution of different patterns of globalization, this paper emphasizes the politics among reflexive actors in the process of globalization, inspired by Kathleen Thelen's updated version of historical institutionalism, Herrigel's pragmatist constructivism, and the "micro politics" approach in the multinational corporations (MNCs) developed by Peer H. Kristensen and Jonathan Zeitlin.[13] This paper holds that the different methods of globalization result from the conflict-laden politics among industrial actors—such as works councils, employers, and unions—instead of being determined by institutions or by the necessity of a worldwide best practice. This position does not argue that institutions do not matter. To the contrary, institutions matter greatly in the sense that they provide actors with resources and repertoires with which to experiment and create new practices. As shall be examined later, German institutional elements like codetermination and central unions give social actors more leeway than their U.S. counterparts. However, the leeway has to be

used constructively. In Germany, existing institutions, including centralized negotiation and codetermination, are being used in a new way by reflexive actors in the course of globalization, creating new institutions and patterns of globalization that are different from those found in U.S. globalization.

In order to understand these different processes of globalization, this paper emphasizes political interactions in the context of domestic institutions. First, employers in advanced economies like Germany and the United States tend to use more benchmarking and direct competition among production sites by developing so-called parallel production across international production processes. For example, GM and Volkswagen developed the same platform strategy in which they produced different models of cars from the same platform with the same standardized parts. By doing this, they could earn volume advantages as well as flexibility in changes of production. Furthermore, they could earn more productivity gains by whipsawing different production sites.[14] Under the pressure of employers' globalization strategies, employees have different choices: (i) global labor solidarity against the company policy of whipsawing, (ii) strategic partnership by company-level bargaining, and (iii) confrontation and passive defeat. In Germany, after strategically changing the existing central bargaining processes and proactively utilizing institutional practices like codetermination, employees are more likely to pursue company-level negotiation and actively participate in the company's decision-making process. German employees are more likely to develop company-level agreements for employment and competitiveness. In contrast, in the absence of employee access to company decision-making, U.S. employees have had little impact on managerial decisions.

Different Globalizations

The actual process of globalization does not necessitate a wholesale exhaustion of coordination or a race to the bottom. Although some labor-intensive industries like the textile and clothing industries show signs of hollowing-out at home,[15] the globalization of German core export industries, particularly the automobile industry, has been systemically different from the U.S. German overseas production is less likely to produce the effects of hollowing-out at home. This section studies the extent to which the effects of globalization on domestic economy differ between Germany and the U.S.

First, we must note that both German and U.S. metalworking industries, including automobile and machinery industries, have significantly increased their overseas production since the 1990s. For example, overseas production of German automobiles grew from 33.2 percent of total passenger car production in 1995 to 52.3 percent in 2010.[16] U.S. automakers including GM and Ford increased their overseas production from 48 percent in 2000 to 75 percent in 2010.[17] Following the original equipment manufacturers (OEMs), parts suppliers in both Germany and the United States have also rapidly globalized in the last two decades. According to an empirical study in 2006, approximately 47 percent of German auto parts suppliers had already begun overseas production in Central and Eastern Europe.[18]

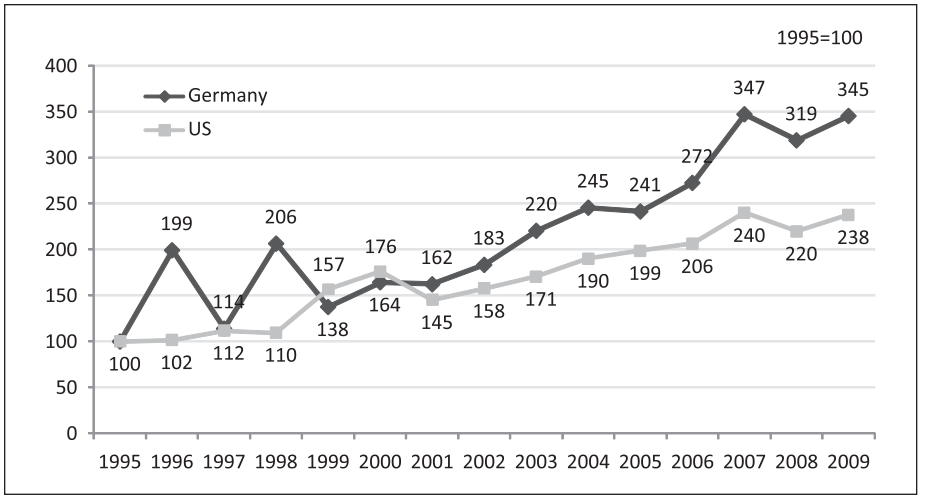

Figure 1. Outward FDI of Transport Equipment and Machinery Industries: Germany vs. U.S.
Source: OECD statistics database.

Figure 1 shows the accumulated outflow foreign direct investment (FDI) growth in German and U.S. transport equipment and machinery industries (International Standard Industrial Classification codes version 3 ISIC 29 for manufacture of machinery, ISIC 34 for manufacture of motor vehicles, trailers and semi-trailers, and ISIC 35 for manufacture of other transport equipment). German FDI increased from $20.5 billion in 1995 to approximately $71.0 billion in 2009, an increase of 245 percent. By contrast, U.S. FDI grew from $46.6 billion in 1995 to approximately $117.8 billion in 2009, a 138 percent increase. Clearly, German overseas production has grown more rapidly than its U.S counterpart since the mid-1990s.

Both German and U.S. corporations also increasingly use the platform strategy and direct competition of production sites. In the early 1990s when German automakers began to increase overseas production in Central and Eastern Europe, they tended to develop the vertically complementary method of high-tech car production in the West and low-end production in the East.[19] However, German automakers like Volkswagen adopted the platform strategy and parallel production in the late 1990s, in which different models used the same platform and same parts at different production sites in Eastern and Western Europe, as GM did, although German automakers like Daimler still use more or less vertical product specialization.[20] As production in Central and Eastern Europe is upgraded, German companies tend to use benchmarking and direct competition of production sites, increasing their departure from the traditional complementary product specialization—low-tech and simple products in the East and high-tech products in the West.[21]

Despite the similar trends of growing overseas production and direct competition of production sites, the effects of German globalization on the domestic economy are

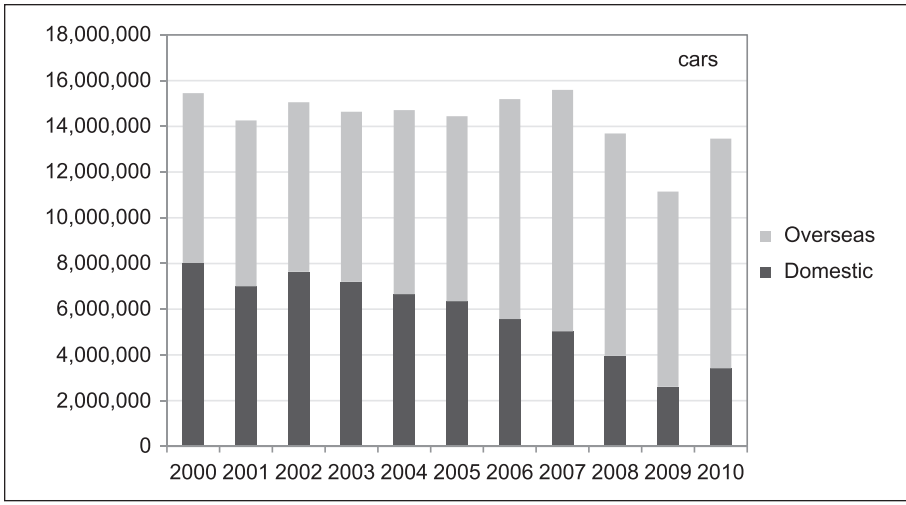

Figure 2. Domestic and overseas production of U.S. automakers GM and Ford.
Sources: OICA (Organisation Internationale des Constructeurs d'Automobiles; International Organization of Motor Vehicle Manufacturers) statistics.

significantly different from those in the United States. First, we note that German domestic production and employment has not declined, even with the significant growth of overseas production. By contrast, production and employment in U.S. corporations at home has tended to decline as they globalize. Domestic production of German passenger cars increased from 4.36 million in 1995 to 5.55 million in 2010, while overseas production also rose significantly in the same period. By contrast, as seen in Figure 2, domestic production of U.S. cars significantly declined, from 8.0 million in 2000 to 3.4 million in 2010; meanwhile overseas production increased from 7.4 million to 10.0 million in the same period.

Figure 3 shows the divergent development of domestic employment in the German and the U.S. metalworking industries including transportation equipment and machinery industries (version 3 ISIC 29, ISIC 34, and ISIC 35). German domestic employment in the metalworking industries grew from 2.11 million in 1998 to 2.46 million in 2008, an increase of 16 percent. In contrast, U.S. employment in the same industries declined from 3.55 million in 1998 to 2.76 million, a fall of 22 percent.

Growth of German production and employment in the core metalworking industries is due mainly to the continuous upgrade of domestic production by further investment at home and further training of domestic labor. As German corporations have increased their overseas production, the domestic job profiles have significantly changed. According to many empirical studies, in Germany more high value and R&D-related jobs have been created, while low-skilled and low-wage jobs have been lost.[22] According to an empirical study on employment changes in the German automobile industry, the jobs of unskilled white-collar workers (*Ungelernte Angestellte*)

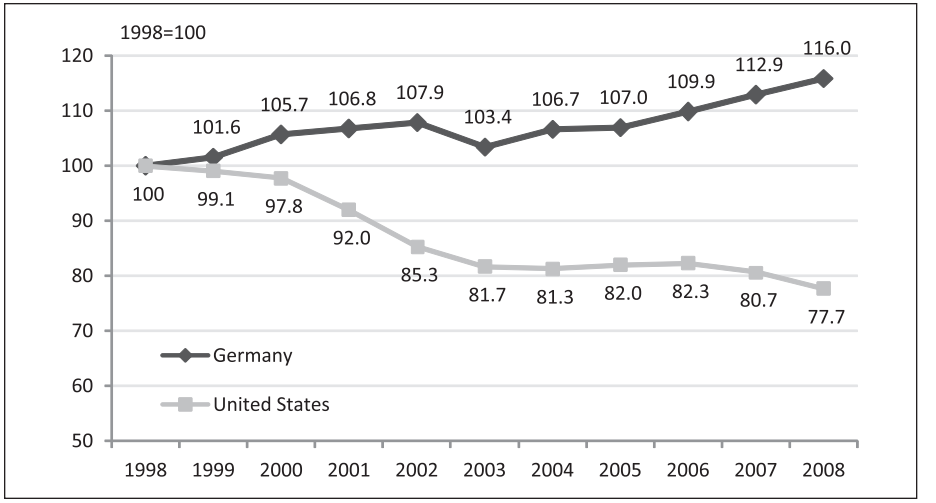

Figure 3. Employment Changes in Transport Equipment and Machinery Industries: Germany vs. U.S.
Source: ILO database.

declined between 1996 and 2001 by 55 percent. By contrast, the number of skilled workers (*Facharbeiter*) increased significantly by 16 percent in the same period.[23] Particularly in the German auto parts companies that have taken over more production jobs due to the worldwide trend of outsourcing and flexible production, the number of skilled workers increased by 64 percent. In addition, in automobile corporations, the number of highly qualified white-collar jobs (*Qualifizierte Angestellte*), mainly concerned with management and R&D, increased by 94 percent. Between 1995 and 2002, employees in the R&D jobs of the German automobile industry increased to 77,000, a growth of 50 percent. The German automobile industry invested approximately 7 to 8 percent of annual sales, on average, in product innovation.[24] Due to the continuous growth of skilled labor, the proportion of skilled employees in the German automobile industry reached 78.6 percent of total employment in 2008 (65.3 percent with vocational training (*mit Berufsausbildung*) and 13.3 percent with technical college certificates (*Fachhoch-und Hochschule-abschluss*)), while the proportion of unskilled workers (*ohne Berufsausbildung*) was only 16.6 percent.[25]

In contrast to this German profile, the proportion of blue-collar workers employed in the U.S. automobile industry was relatively constant at 80 percent between 1980 and 2004. In contrast with the shift in the German employment structure—in which the proportion of unskilled white-collar workers declined while the proportion of R&D-related jobs increased—the loss of working jobs in the U.S. automobile industry has not been compensated by the growth of R&D jobs.[26]

According to the National Science Foundation's R&D intensity data, the R&D intensity of the U.S. automobile industry (North American Industry Classification

System codes NAICS 3361-3363 for motor vehicles and parts) was just 2.5 percent of total sales, while the R&D intensity of the whole manufacturing sector in the United States was 3.6 percent on average in 2003 (NAICS 31-33). The reason for the relatively modest growth of R&D investment in U.S. manufacturing as a whole is due mainly to U.S. offshoring. According to NSF data, U.S. manufacturing corporations' investment in R&D outside the United States grew at almost three times the domestic investment in R&D from 1999 to 2007. For the U.S. automobile industry, the value-added activities inside the United States declined by 16.6 percent between 2000 and 2007.[27] By contrast, in its process of globalization, the German automobile industry increased its domestic production by increasing premium car production.[28] Due to the U.S. way of globalization, in which corporations search for low costs across national borders to earn short-term gains rather than upgrading domestic production, the national trade deficit has increased. Even in "advanced technology products," the balance of U.S. trade, which was in surplus from 1988 to 2002, has turned negative since 2002 and increasingly has declined to -$53.6 billion in 2007.[29]

Politics of Globalization: The German Way Compared with the United States

In the past two decades, German corporations have upgraded their domestic production while moving some aspects of production overseas. German corporations have used collective deliberation and coordination to decide how the industries would globalize. In the United States, however, employers—who are concerned with shareholder values—tend to decide globalization strategies unilaterally. In order to understand the different patterns of globalization, this paper emphasizes the politics of reflexive actors who reinterpret the meaning of institutions and utilize them in a new way in the process of political interaction. This section examines how actors in the German metalworking industries have created new practices through their interactions in the course of globalization. In order to explore the German way of globalization, this section examines (i) the changes of mass producers' international division of labor and labor's response using the case study of Volkswagen (VW); and (ii) the company-level pacts in the metalworking industries as a whole.

Changes in the International Division of Labor and Labor Politics

In order to explore how German labor has responded to the competition of production sites, the case of Volkswagen is instructive because it is closer to the model of U.S. mass producers. Traditionally, German automakers developed "complementary product specialization" for the international division of labor with high-end models produced in Germany and low-end models made in the plants on foreign soil. In particular, German premium car makers like Daimler have traditionally emphasized each plant's specialization, called "a solitary factory conception," in which one plant produces one model and does not share components. Each plant feels relatively little

pressure from other production sites. Although recently Daimler has adopted some parallel production and increased competition of production sites, it still uses a more or less vertical specialization.[30] However, Volkswagen adopted the platform strategy and parallel production, which shared common parts and brought more direct competition of production sites between Germany and East Europe, as GM did in the 1990s.[31] How did German labor respond to the VW strategy of globalization?

German labor attempted to find an alternative to the global strategy through collective negotiation at the company level, rather than simply opposing the employers' global strategy. Works councils (*Betriebsräte*) as shop-floor organizations representing workers, which have access to the company's key decisions due to German codetermination law, in fact agreed with the concept of globalization to enhance the company's competitiveness. Facing the economic crisis of 1993, VW works councils changed their existing defensive policy in response to globalization. These works councils agreed with employer plans of platform strategy and globalization, and they developed a so-called Employment and Modernization Pact.[32] In this pact, works councils agreed on the rationalization of production methods and the company agreed on employment protection. In addition, VW works councils attempted to extend their interest representation to foreign laborers in an attempt to extend to them codetermination over various issues, including global sourcing and work-time flexibility.[33]

Around 1999, when the company was about to decide where to produce its SUV Touareg, globalization became an increasing threat to works councils at Volkswagen. In the selection of production sites for high-quality SUVs, severe conflicts between the company and labor lasted several months.[34] Until that time, a rough consensus at VW was that high value-added cars would be produced in Germany and low-priced cars would be produced in Central and Eastern Europe. Labor at VW expected that the production of SUVs would go to Hannover. However, the Hannover plant could not meet the production cost requirements that VW management suggested. From the employer's point of view, the production of SUVs should be more cost competitive in order to compete effectively in the crucial U.S. market. VW labor representatives worried whether they would ever get another chance at a new model if they lost such high-tech car production. When management would not budge, the labor representatives in Germany conceded Touareg production to the Bratislava plant in Slovakia; but in exchange, they began new negotiations for development of a specific car production project to employ more workers in Germany. That agreement is the "Benchmark Production 5000X5000."

Few cases have attracted as much public attention as VW's project organized as Auto 5000 GmbH. From its initial creation all the way through its successful integration of Auto 5000 employees into Volkswagen AG in January 2009, the project has been closely watched. Against the background of debate over Germany as a production site, in which neoliberals doubted the existing German model of production based on "rigid" collective bargaining and high labor costs, the Auto 5000 project was a test case of whether Germany could hold its place in manufacturing.[35]

In response to the production competition, Auto 5000 GmbH was established to produce the Touran minivan in Wolfsburg in August 2001 by collective agreement

among key actors including VW management, IG Metall, and VW works councils. The Touran initially had been planned for production in Eastern Europe. Key actors negotiated not only the wage bargain but also how to organize production. Reflecting upon the interests of Lower Saxony's state government, all workers for Auto 5000 were recruited from the unemployed, including 3,500 unemployed people who had no experience in auto production. Following six months of training, workers began to produce the Touran in November 2002.

The wages of Auto 5000 GmbH are the same for all direct workers and are set at the level of skilled workers' average wages defined by the sectoral wage agreement (*Metall-Flächentarifvertrag*) in Lower Saxony, but these wages were initially 20 percent lower than the level for VW workers, as defined by the VW house agreement (*Haustarifvertrag*). Due to the economic success of the Touran, bonuses and wages were raised every year to make up this difference. Based on its economic success, Auto 5000 was completely integrated with Volkswagen in January 2009 with the same wage level as the rest of Volkswagen.

Auto 5000 achieved economic success due to its highly innovative production organization. According to a midterm evaluation by the Sociological Research Institute (SOFI) at Georg-August University in Göttingen in 2004, Auto 5000 had already made large profits as well as significant improvement in quality and production. This economic success was not simply due to early wage concessions, compared with VW house agreements. More important was the innovation of production organization. For example, in 2005, wages did not change but profits grew by 25 percent. Auto 5000 continuously improved the competitiveness of its production by focusing on process-oriented innovation.[36]

A key feature of Auto 5000 production is the continuous improvement of production processes by collective deliberation, which utilizes the unused potential of all relevant employees. Workloads and personnel deployment are collectively decided by management, works councils, and work teams. Production processes are continuously optimized through horizontal and vertical communication.

Another key feature of Auto 5000 is an emphasis on "learning plants" (*Lernfabriken*). First, Auto 5000 developed a high level of initial and ongoing training. Based on collective agreements between company and union, workers engage in further training three hours per week—a uniquely high level in the automobile industry. Furthermore, Auto 5000 systematically integrates work and learning. Auto 5000 has built large conference rooms near the production lines, in which the relevant managers, engineers, and specialists from various vocations meet to discuss continuous improvement in production. This collective deliberation directly affects continuous improvement in workers' competence as well as finding new efficiencies in the production process.

Due to its economic success and significant improvement on productivity and quality, VW management decided to give the production of a new SUV Tiguan to Auto 5000, which began production in August 2007. Auto 5000 empirically demonstrates that even high-wage Germany can increase manufacturing jobs, even with strong unions and collective negotiation that neoliberals criticize as no longer relevant. In

particular, as shall be examined later, VW's 5000 project has been used as an effective alternative model for the German metalworking union IG Metall's strategy, allowing unions to be actively involved in company-level bargaining and suggesting an alternative to employers' production relocation.[37] For example, in the 2008 economic crisis, IG Metall attempted to expand VW-style codetermination and cooperative solutions to the suffering Opel and small and medium-sized companies like Schaeffler.[38]

The case of Audi engine production in Győr, Hungary, also shows the most recent and direct competition of production sites between Germany and Central and Eastern Europe. Until the early 1990s, VW engines were produced in Salzgitter, Germany, and Audi engines were made in Ingolstadt. However, since 1994, when Audi built and upgraded its engine plant in Győr, the international division of labor began to change slowly. In 2000, Ingolstadt finally stopped producing engines, while Salzgitter reduced production.[39] A SOFI industrial expert succinctly described the upgraded production in the Eastern Europe and the intense competition between Eastern and Western Europe:

> At this moment, the complementarity is not so clear. The East production sites learned a lot in the last 15 years; it may not be a competition between East and West, but a competition between Western companies located at East and companies located at West.[40]

Nevertheless, German production sites for Volkswagen did not reduce employment as a result of company-level collective bargaining. Through collective compromise, German sites improved their production. Although Ingolstadt conceded the engine production to Győr, it did not reduce its employment levels. Through collective agreement, Audi restructured the production system, and surplus employees in Ingolstadt were redeployed to car assembly. In actuality, employment in Ingolstadt increased from approximately 22,400 in 1994 to just over 31,000 in 2003, two years after the end of engine production.[41]

Salzgitter also sustained employment levels and improved its production through company-level pacts in 1999, 2001, 2004, and 2006. While Salzgitter reduced the number of semi-skilled workers, it increased skilled workers by 80 percent, due to a focus on higher-value parts for engines.[42] In 2006, VW developed another company-level pact for the Salzgitter plant in which the company agreed to invest in the development of a new generation of engines and employ 7,000 more workers; meanwhile labor representatives agreed to extend the work week from 28.8 hours to 33 hours without further compensation.[43] These agreements show that through collective deliberation, main actors in German companies tend to change the international division of labor from traditional product specialization to specialization in production of high-value parts.

Company-level Pacts in the Metalworking Industries

The different outcomes of globalized production mainly arise from the different ways of globalization. The reason why the German automobile industry improved their

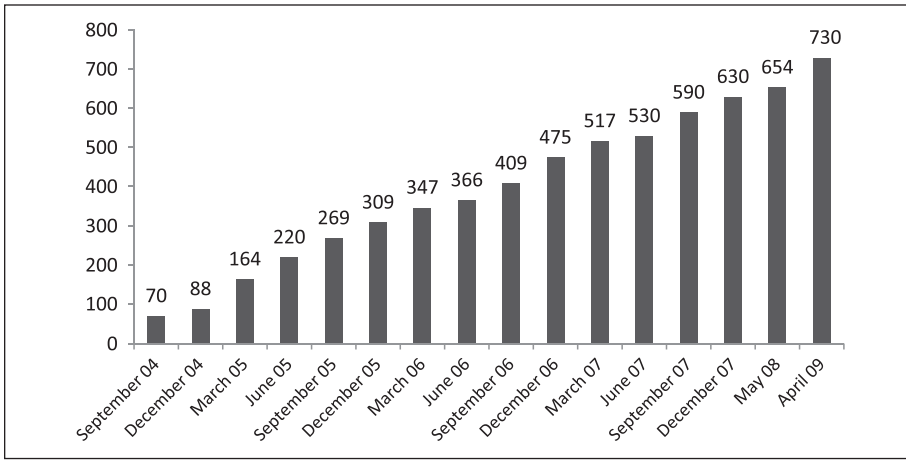

Figure 4. Number of Company-level Deviations from Sector Agreements in Metal and Electronics industries.
Source: Gesamtmetall

domestic production and employment—even in the course of internationalization—is because of the collective deliberation among key actors, including employers, unions, and works councils that together created company-level pacts for competitiveness and employment. These company-level pacts are not limited to VW; they are widespread in the German core industries. This section examines first the extent to which such company-level pacts have developed, and then explores how Germans formed the company-level pacts in the course of globalization.

First, we note that German company-level agreements were newly created in a conflict-laden process of adjustments. In 1993, when Volkswagen made a company-level agreement for employment, such agreements were exceptional in Germany. However, company-level alliances for employment and competitiveness have now become common across industries in Germany, increasing especially since the 2004 Phorzheim Agreement.[44] As seen in Figure 4, the number of company-level agreements in the metalworking and electronics industries increased annually, from seventy in September 2004 to 730 in April 2009. According to recent IG Metall data, a total of 3,408 deviation agreements were forged between 2004 and March 2010. Many deviations agreements have now expired, and in 2010 approximately 1,060 agreements remained in effect.[45]

Company-level agreements for employment and competitiveness reflect political tradeoffs based on the principle of reciprocity.[46] It is difficult to measure the degrees of tradeoff in the exchanges because company-level agreements vary case by case. However, despite the variations in company-level pacts, as seen in Table 1, German employers in the metalworking industries have provided many counter-concessions including employment protection, further investment, and innovation in exchange for labor concessions on work-time flexibility and pay, even though labor organizations

Table 1. Employer Counter-Concessions according to the Issues in Derogation Agreements in Metal and Electronics industries.

	Unit: % of companies		
Years	2004	2005	2006
Employment Protection	61.7%	73.8%	79.7%
Protection Production Sites	16.8%	21.1%	31.4%
Investments	10.2%	24.8%	33.9%
Innovation / Competition	8.4%	9.5%	15.1%
Apprenticeship	12.0%	21.4%	28.0%
Further Training	4.8%	8.3%	16.6%
Codetermination / Union Rights	31.1%	33.5%	40.5%
Bonus for Union Members	9.0%	7.7%	5.9%
Others	41.3%	49.3%	59.8%

Source: Haipeter (2011), 39; Haipeter and Lehndorff (2009), 39; Bispinck and Dribbusch (2011), 42.

were on the defensive during the course of globalization. For example, in the three years between 2004 through 2006, employers in the German metalworking industries provided investment promises of more than €3 billion in the derogation agreements. The promise of innovation and further training contributed to the upgrading of domestic production competitiveness. More importantly, as seen in Table 1, employers' counter-concessions show strong increases across all issues except for bonuses for union members. This is one instance in which labor representatives in Germany have controlled the deviations and earned more influence in company-level bargaining.

These advances on the part of labor do not mean that German employers have lost power. German employers likewise have an interest in upgrading their production sites. For example, even in the metalworking industries, works councils at small companies (SMEs) have fewer organizational resources and competencies than large corporations to develop company pacts. Nevertheless, German SMEs have strong incentives to maintain and upgrade domestic production, because they believe that their competitiveness is based on the abundance of skilled engineers as well as the regional networks among neighboring specialist companies, universities, and research institutes, such as in Baden-Württemberg and Bayern.[47]

The collective deliberation and commitments to upgrading domestic production in Germany contrast with the U.S. model of unilateral decisions to globalize based on corporate financialization. Many U.S. business and industrial experts, including Michael Porter, Thomas Kochan, and Gregory Tassey, diagnose the causes for the current decline of U.S. industrial competitiveness as low investment and destructive offshoring due to employers' short-term horizons.[48] Due to shareholder activism, stock-based incentives, and declining managerial tenure, U.S. employers who are concerned with "this quarter's numbers" are tempted to "move business activities to whatever location offers the best

deal today rather than make the sustained, location-specific investments required to boost long-run productivity."[49] In particular, Kochan rightly points out the power shift within U.S. corporations due to corporate financialization:

> The focus on maximizing shareholder value and an easy-come, easy-go attitude toward the workforce started during the 1980s. Corporations were increasingly seen as bundles of tradable assets that could be reconfigured or restructured to maximize short-term financial returns. Power within corporations shifted from leaders responsible for production, human resources, and labor relations to finance executives, who served as agents of ever more demanding financial markets.[50]

In the United States, even the strong auto unions have focused on defending their members' interests on issues such as severance payments, instead of trying to upgrade production sites through collective deliberation as Germans have done. Due to the inability of employees to access the company's decision-making processes, U.S. unions are more likely to protest against employers' unilateral decisions on globalization, or to lobby members of Congress, than to develop cooperative solutions for upgrading their production sites.[51]

However, this does not mean that the United States completely lacks institutional resources to develop collective deliberation. Recently, under the current economic crisis, the Obama Administration intervened in the process of rescuing and reshaping industries. It reorganized top management in the financially troubled auto corporations and provided guidelines for corporate restructure. In addition, the government has initiated public funding to rejuvenate high-technology innovation and U.S. manufacturing. Indeed, the U.S. government has a long history of industrial policies that have developed high-tech industries, such as computers and biotechnology.[52] However, as Fred Block argues, public funding initiatives and industrial policies have been hidden from public deliberation due to the predominance of market fundamentalism, which has reduced the effects of industrial policies as well as prevented collective deliberation of industrial policies.[53] In the current crisis, the Obama Administration's industrial policies may create a chance to change this trend. However, it is too early to tell whether Obama's open industrial policies can create socially deliberative U.S. corporate governance. It depends on domestic politics, as seen in Germany, which shall be examined now.

How were Germans able to develop collective deliberation and company-level pacts in the course of production globalization? In taking a pattern quite different from U.S. unilateralism, the German case confirms that institutions matter. German institutions, including strong industry unions, works councils, and codetermination—lacking in the United States—provided actors with significant resources in forming company-level cooperative pacts, even though many German corporations have also shifted to corporate financialization, departing from their traditional corporate governance.

For example, Daimler AG has deviated from the typical German corporate governance model and has increasingly depended on financial markets since the late 1990s

when it merged with Chrysler. Traditionally Daimler had a stable block of shareholders, such as Deutsche Bank. Likewise, Volkswagen has the government of Lower Saxony (20 percent of total shares), and BMW has the Quandt family. However, as Deutsche Bank has changed to a shareholder-value financial operation and retreated from Daimler's shares, Daimler's top management might lose the ability to implement a coherent long-term strategy.[54] However, despite the changes in financialization, Daimler is still under the influence of German codetermination, by which employee representatives can participate in the key decision of the corporation. Due to this institution of codetermination, Daimler workers were able to deliberate on the company's economic crisis and build company-level pacts in 2004 and 2012 in response to the company's threat of relocation.[55]

Indeed, the German institution of codetermination has facilitated the building of these company-level alliances, as seen in the case of Daimler. Due to access to company decision-making through codetermination, German labor representatives are more likely to develop company-level cooperative alliances as a solution to global competition of production sites.[56] For German labor, developing international solidarity among unions against their multinational corporations' whipsawing strategy is the second-choice option they use in situations where they do not have access to the company's decisionmaking and their employers reject collaboration.[57] In this sense, the German policy of codetermination has facilitated company-level alliances.

However, we note that company-level agreements in the process of globalization are not wholly predetermined by German industrial relations institutions. On the contrary, reflexive actors created such agreements, freshly interpreting the meaning of institutions and creating new understandings in the process of political interaction. Rather than passively resisting the decline of existing centralized institutions, German labor proactively changed the meaning of decentralization and utilized the unused potential provided by codetermination in the process of political conflicts with employers.

Traditionally, the German model of industrial relations had been characterized by the dual system in which collective negotiations about wages and working time occurred between unions and employer associations, such as IG Metall and Gesamtmetall at the industrial level, while works councils normally supervised the implementation of the collective agreement at the company level.[58] However, company-level agreements, which became popular in the process of globalization, are deviations from the existing centralized agreements, and strengthened the trend of decentralization in collective bargaining. Many scholars, including Wolfgang Streeck and Anke Hassel, argue that this decentralization represents a disorganization of the German model and a move in the direction of the U.S-style liberal model.[59] However, the company-level agreements are not a sign of conversion to a free market, but the creation of a new form of collective coordination resulting from the conflict-laden politics of reflexive actors in Germany.

Initially, German employers attempted to negotiate at the company level, deviating from the existing sector agreements. These attempts are contrary to the Varieties of Capitalism (VoC) institutionalist expectation of path-dependence in which actors

utilize comparative institutional advantages of existing centralized coordination.[60] In order to meet global competition, companies in Germany needed to make their production chains and working conditions more flexible; particularly, small and medium-sized companies were under intense pressure to reduce their production costs.[61]

As employers began to withdraw their membership from trade associations in order to deviate from the sector agreements, the trade associations introduced a special membership status called "*Ohne Tarifvertrag*" (OT: Without Collective Agreement). The OT-status companies in the *Gesamtmetall* increased from seven in 2006 to eighty-six in 2010.[62] Due to the increase of deviations from sector agreements, the existing industrial relations in Germany have been significantly decentralized. Employment through sector agreements (*Flächentarifbindung*) in West Germany declined from 70 percent of total employment in 1996 to 56 percent in 2010. Similar employment in East Germany declined further from 56 percent to 37 percent in the same period.[63] The number of companies in West Germany covered by the sector agreements declined from 8,168 in 1991 to 3,495 in 2010, while the number in East Germany fell from 1,365 to 218 in the same period.[64] Now, the locus of bargaining has shifted from industry level to company level. Furthermore, in company-level bargaining, the works councils have taken over more tasks than they performed in the past.

Indeed, as globalization goes, German employers have more room to maneuver than they had in the days of the traditional coordinated market economy, because they can relocate production to other countries or outsource production to other firms with different labor norms. However, the decentralization of collective bargaining has not resulted in the exhaustion of collective coordination, as Wolfgang Streeck expects.[65] In the backbone sector of German industrial relations, the decentralization processes have been more collectively regulated, with new forms of coordination emerging.

In Germany, trade unions and employer associations have collectively coordinated and regulated the scope of deviations, as well as the procedures of company-level derogation negotiation. For example, in 2004, IG Metall and Gesamtmetall forged the Phorzheim Accord which officially allowed company-level derogation if the company would meet certain conditions, including (i) that the derogations would be temporary and should guarantee employment security, and (ii) that the company should make further investments in modernization for competitiveness.[66] Although the agreement was to some extent enforced by government, the Phorzheim Accord enabled trade unions and employer associations to centrally control the process. These company-level changes have further decentralized collective bargaining, but do not imply a simple exhaustion of coordination or the end of sector negotiations.

By proactively utilizing decentralization and codetermination, rather than passively resisting the decline of the existing centralized bargaining, German labor created new solutions to the challenges of globalization. Traditionally, German unions were less likely to be directly involved in company-level bargaining. In actuality, German unions opposed company-level bargaining because they believed it could decrease their corporatist coordination capability.[67] However, German unions turned to a more active involvement in company-level bargaining and created better solutions by

developing new practices, such as unions' active involvement in company-level bargaining and democratic participation of workers in collective negotiation.

Through active involvement in company-level negotiations, German labor in the metalworking industries not only upgraded their production sites but also improved their organizational power. Company-level negotiation processes in German companies operate in the following way. First, employers' interests in negotiating deviations from the existing agreements are directly communicated to the union; the union determines when to pursue company-level negotiation after researching the economic conditions of the company. Negotiation at the company level occurs with participation of trade union representatives and during the negotiation, the workers' assembly continues to negotiate and communicate. Finally, the negotiation is approved and registered in the deviation agreements.[68]

In this process of bargaining, works councils have gained more influence. Works councils attempt to ascertain the company's economic conditions with the assistance of the union after employers submit to their sector unions the reports that justify their needs for company-level deviation from existing agreements. Through in-depth investigation of the employers' reports, unions and works councils develop their alternative solutions. In addition, unions and works councils encourage ordinary workers to get involved in the negotiation process as a way to earn more legitimacy for their alternative to the employer's plan. This bottom-up democratic legitimation process is not only a departure from the traditional German corporatist top-down practices, but it is also a key means to recovering union power. Actually, according to an industrial expert of company-level bargaining, the level of unionization in the German metalworking industries has slightly improved, or at least the outflow of members has been staunched, due to the unions' new policy of aggressive involvement in company-level bargaining and this new democratic legitimation process.[69]

Further, in the conflict-laden processes of company-level negotiations, employers and labor representatives have built many constructive and cooperative solutions for upgrading German production sites. In the process of company-level bargaining, IG Metall's campaign of "*besser statt billger*" (better rather than cheaper) has worked as an alternative to employers' solution of offshoring to achieve the lowest price, and it has facilitated employer efforts to upgrade domestic production for innovative technology and organization. For example, according to an in-depth empirical study by the Instituts Arbeit und Qualifikation (IAQ) of sixteen German establishments, works councils developed active alternatives to managements' cost-reduction programs.[70] In particular, the IG Metall NRW's *besser statt billiger* has now become an apparent alternative movement in German metalworking industries. Under the strategy of *besser statt billiger*, works councilors exchange their experiences and contact experts and consultants to discuss various issues and find better solutions. The works councils collect employees' new ideas and develop innovation in products and production organization.

As seen in Table 2, the insiders in the German companies evaluate their experiences of cooperative works through company-level negotiations very highly. A majority of supervisory board staffs in German companies agree that codetermination

Table 2. Evaluation on Codetermination and Collaboration in German Corporations.

	Agree (yes)	Disagree (no)	No answer
In the supervisory board*			
Does the participation of various groups in the supervisory board contribute to the efficient implementation of decisions?	70.3%	29.7%	-
Is the supervisory board successful in bringing the interests of capital and labor representatives to agreement?	88.2%	11.8%	
Managers' Evaluation on Collaboration**			
Works councils bring suggestions actively	69%	31%	-
Works councils carry out reorganization together	84%	16%	-
Evaluation on collaboration at the establishment	(good)	(bad)	(so/so)
Executive Directors	72%	4%	24%
Works Councils	67%	7%	26%

Source: WZB January 2005; Impuls 2/2005; BISS 2006; Impuls 8/2006, p. 2.
*WZB 2005 survey of the supervisory boards of more than 100 companies.
**Bochum University 2006 survey of senior executives of 3,200 establishments and 1,400 workers.

brings efficiency and improvement to their company; 69 percent of executive directors agree that their works councils bring better ideas to the improvement of production; and 72 percent of executive directors evaluate their experiences of collaboration as good or very good. In actuality, many empirical studies reveal that company-level agreements in the metal and electronics industries significantly contributed to the improvement of the company innovation process, creating more jobs and securing employment places.[71] For example, according to the WSI 2008-2009 special survey of 1699 German establishments, these establishments undertook innovation in the last two to three years as follows: 70 percent participated in the innovation of operational processes, 36 percent undertook innovation in product-related services, and 32 percent made product innovations.[72]

As a result, through company-level negotiations, employers in the German core industries have been increasingly engaged in efforts to find new solutions with employees to improve the competitiveness in German production sites by further investments, training, and innovation through company-level agreements, rather than simply relocating or moving production overseas.

Conclusion

The globalization of production has become an established trend in the advanced capitalist countries. Driven by intense competition in the global market, corporations

in advanced economies tend to recombine elements of production across national borders, including low wages, high technologies, skilled labor, and easy access to markets. As national corporations globalize to survive or become more competitive, they cause significant changes to national economic systems.

However, prevalent theoretical approaches—including the optimistic neoliberalism of mutual benefits and the pessimistic leftist explanations of the hollowing-out of domestic manufacturing, the race-to-the bottom, and the Americanization of coordinated economies—are not sufficient to understand the current changes in the globalization of production. In contrast to the neoliberal optimism of mutual benefits, the globalization of national corporations does not necessarily create more jobs and national prosperity, as seen in the United States. Although corporations earn profits on foreign soil, there is no guarantee that they invest more at home; they can go to another foreign location to get even better returns. Still, this does not mean that the globalization of production necessarily generates a hollowing-out or the simple exhaustion of a coordinated economy, as many pessimists expect. To the contrary, as seen in the case of German core industries presented here, globalization can create more jobs at home and make the national industries more competitive.

This paper maintains that the different outcomes of production globalization result from the politics of main actors inside and outside the corporations. These politics decide where to invest and how to manage the international division of labor based on various perspectives. As seen in the text, the different outcomes of U.S. and German globalization mainly derive from the different methods of decision making on how to globalize. In most U.S. corporations, employers, who are more concerned with shareholders' value, unilaterally decide how to globalize, excluding their employees' voices. By contrast, in the German core metalworking industries, main actors—including employers, works councils and trade unions—bring varying degrees of influence in developing collective agreements to the globalization process. In German metalworking industries, employers and labor representatives have created constructive solutions while contesting where to invest and how to globalize.

However, this German pattern of globalization was not predetermined by Germany's domestic institutions; rather, it was newly created by the conflict-laden politics of reflexive actors. Indeed, institutions matter in the sense that German institutions—including strong unions, works councils, and codetermination (which are not sufficiently available in the United States)—provide actors with facilitative resources for building collective deliberation. However, the company-level compromises in Germany were newly created by reflexive actors who fundamentally changed the meaning of existing centralized bargaining and proactively utilized the unused potential of codetermination, rather than passively resisting the decline of the existing institutions in the political sphere. As noted above, in response to employers' strategies of company-level deviations and globalization, German labor has not simply opposed decentralization and globalization. It created a new form of coordination through new practices, including the unions' active involvement in company-level bargaining, as well as new democratic and bottom-up negotiation methods. German institutions, like

works councils and codetermination, are crucial in the sense that they provide actors with resources and repertoires. However, even more important are the actors' reflexive and creative practices in political interaction.

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